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The Jacobs Report

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BUDGET WOES CONTINUE

Only a week into the 2003-04 fiscal year, Michigan is facing a startling \$900 million deficit. Lawmakers from both parties are contemplating methods of raising revenue to avoid what would be another round of major budget cuts.

Tax cuts enacted under the Engler administration continue to chip away at the state's revenue foundation. Although state income continues to dwindle, another tax cut is scheduled for January 1 (further reducing the tax from 4.0 to 3.9 percent). The .01 percent tax reduction saves the average taxpayer between \$20 to \$50 a year, yet costs the state tens of millions of dollars in lost revenue. Even so, the Republican majority in the Legislature is politically sensitive to halting the decrease. House Speaker Rick Johnson (R-LeRoy) said he still will not take a serious look at freezing the income tax rollback at least until the new revenue estimates are set next week. But he again said, "Everything is on the table. That is a huge number and we need to get that addressed before mid-November." Mr. Johnson, told that some legislators may be open to considering a freeze on the rollback, said nothing should be done to slow down a beginning economic recovery. "How and where we make our cuts and what we do on taxes has got to be done very carefully," he said.

Other lawmakers are inexplicably contemplating further tax cuts. Rep. Jack Hoogendyk (R-Portage) offered a proposal Thursday that would restart the multiyear phaseout of the single business tax, allow businesses to deduct the cost of training employees from the business tax base and provide a variety of tax credits and exemptions for seniors and taxpayers with children.

Of the new revenue proposals, those with the most momentum are measures designed to recoup "new" revenue not already being collected.

Republicans have sponsored legislation that would create a state tax form for independent contractors to report their income. The federal government requires a 1099 form for those contractors, but the state does not. The chair of the House Tax Policy Committee, Rep. Lorence Wenke (R-Richland), and Sen. Alan Cropsey (R-DeWitt) are sponsoring this legislation. Mr. Cropsey's bill (SB 770) was introduced Thursday while Mr. Wenke turned in his bill for introduction.

The Republicans are also discussing ways to levy remote sales taxes on catalogue and Internet purchases. Michigan's participation in a multi-state tax consortium lapsed this year, but there has been serious talk about rejoining. Participating states have great hope that these new taxes will yield much revenue from taxes that currently go uncollected, but Congress must approve whatever compact the states create.

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There is also legislation to allow video lottery terminals at horse racing tracks and off-track betting on horse races, following the recent tradition of states looking for additional tax revenue from the proliferation of gambling and the application of "sin" taxes on gaming, tobacco and liquor.

NEARLY QUARTER OF ALL U.S. JOBS LOSSES FROM MICHIGAN

Nearly one-quarter of all U.S. job losses in the last two years have come from Michigan. That stunning statistic was released during a briefing of Senate Appropriations members by Senate Fiscal Agency Directory Gary Olson.

Mr. Olson said that job loss is the backdrop for a cumulative general fund and school aid 2003-04 budget problem faced by the state.

A shocked silence fell over the room when Mr. Olson said that Michigan, with 3.3 percent of all the workers in the United States, accounted for 23.3 percent of all the job losses in the U.S. since 2001.

One source said that statistics, not necessarily shared at the meeting, also showed that in recent months Michigan has been "dead last" in terms of job growth in the still stagnant U.S. economy.

SEPTEMBER REVENUES SHOW WEAK ECONOMY

Michigan's September revenues were up compared to the year before, but officials advise no celebration. The numbers are an anomaly, ginned up by increases in the state's accelerated education property tax collections, while revenues reflecting the overall health of the economy continue to decline.

The core taxes of income, sales and use taxes, were actually down by 2.6 percent, and the net income tax collections for the month were down by 7.7 percent, according to figures from the Senate Fiscal Agency.

Gross income tax withholdings during September totaled \$505 million, down 5.9 percent from September 2002. The total income tax collected, including quarterly and annual payments, was \$624 million, down 7.7 percent. Besides the weak withholdings because of continued job losses, the tax collection was also hurt by a doubling of tax refunds made during the month, from \$16 million to \$32 million.

For the fiscal year thus far, income taxes have netted \$5.3 billion, down 6 percent. The income tax cut that took effect in January accounts for 2.5 percent of the reduction alone, and will drop further when the next cut goes into effect this coming January.

State Senator Gilda Jacobs represents the 14th Senate District, which includes Beverly Hills, Bingham Farms, Farmington, Farmington Hills, Ferndale, Franklin, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak Township, Southfield, and Southfield Township. She is the Minority Vice Chair of the Families & Human Services Committee and the Economic Development, Small Business & Regulatory Reform Committee. She also serves on the Government Operations and Health Policy Committees.

Constituents of the 14th District may contact Senator Jacobs at sengjacobs@senate.michigan.gov or toll-free at 1-888-937-4453.

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